

February 18, 2008

Ms. Florence E. Harmon  
Deputy Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

**Concept Release on Possible Revisions to the Disclosure  
Requirements Relating to Oil and Gas Reserves  
(Release Nos. 33-8870; 34-56945)  
Commission File No. S7-29-07**

Dear Ms. Harmon:

Ernst & Young LLP is pleased to comment on the Securities and Exchange Commission's (the "Commission" or the "SEC") Concept Release (the "Release"), which seeks to obtain information about the extent and nature of the public's interest in revising oil and gas reserves disclosure requirements that exist in their current form in Regulation S-K and Regulation S-X. Our comments also reflect the views of Ernst & Young Global, which is the global organization of Ernst & Young member firms.

***General***

We strongly support the underlying concept in the Release that the Commission's current oil and gas reserve disclosure requirements should be reevaluated in light of the significant changes in technologies and world markets that have occurred since these requirements originally were adopted. Based on interaction with our clients and other participants in the oil and gas industry, we believe that the manner in which oil and gas reserves are recognized, measured and disclosed using the current Commission requirements many times is inconsistent with the manner in which management determines its best estimates of the ultimate recoverability of reserves. Further, we believe that changes to the recognition, measurement and disclosure requirements could be made to either require, or permit, disclosures that allow investors to better understand how management of registrants with significant oil and gas exploration and production activities evaluate investment opportunities, and the reasons for making certain investment decisions. We believe that the disclosure of such information would be more meaningful to investors than the information currently provided.

***Specific Issues on which the Commission Seeks Comment***

We have organized our comments below to respond to certain issues on which the Commission seeks public comment. Many of the issues for which comments are requested in the Release relate to the definition and estimation of oil and gas reserves. These issues are outside of our area of expertise as accountants and auditors. Accordingly, we will not comment on such issues.

**Q 1. Should we replace our rules-based current oil and gas reserves disclosure requirements, which identify in specific terms which disclosures are required and which are prohibited, with a principles-based rule? If yes, what primary disclosure principles should the Commission consider? If the Commission were to adopt a principles-based reserves disclosure framework, how could it affect disclosure quality, consistency and comparability?**

Although estimating oil and gas reserves is outside our area of expertise, we are supportive of the view that the Commission's disclosure framework be principles-based. We believe that a primary principle of such a framework should be that the resultant disclosures provide information to assist present and potential investors assess the amounts, timing, and uncertainty of a registrant's future cash flows from the development and production of its oil and gas reserves. Additionally, the principles should be flexible enough such that future changes in technology can be incorporated into the process of recognizing, measuring and disclosing reserves pursuant to the Commission's requirements without modification.

**Q 2. Should the Commission consider allowing companies to disclose reserves other than proved reserves in filings with the SEC? If we were to allow companies to include reserves other than proved reserves, what reserves disclosure should we consider? Should we specify categories of reserves? If so, how should we define those categories?**

We have observed that companies in the oil and gas industry routinely consider reserve categories other than proved (most notably probable reserves) when making decisions relating to the acquisition of properties and/or other oil and gas companies. Additionally, we note that reserve categories other than proved are often contemplated in accounting analyses such as asset valuations prepared in conjunction with purchase price allocations and impairment tests.

Accordingly, we believe that companies should be permitted, but not required, to disclose reserve categories other than proved. Such disclosure might provide meaningful information that could permit present and potential investors to better understand the decision making of a company's management, and better evaluate the company's long-

term prospects. If companies choose to make such disclosures, we believe that the Commission should require accompanying disclosure of the basis of preparation of the reserve estimates (e.g., price assumption, discount rate used) and a statement emphasizing that the ultimate development and production of such reserves are substantially less certain than proved reserves (i.e., risk factors). Additionally, we believe the Commission should clarify that all disclosures about oil and gas reserves qualify for protection under the statutory “safe-harbor” relating to forward-looking information.

**Q 10. Should we reconsider requiring companies to use a sale price in estimating reserves? If so, how should we establish the price framework? Should we require or allow companies to use an average price instead of a fixed price or a futures price instead of a spot price? Should we allow companies to determine the price framework? How would allowing companies to use different prices affect disclosure quality and consistency? Regardless of the pricing method that is used, should we allow or require companies to present a sensitivity analysis that would quantify the effect of price changes on the level of proved reserves?**

We believe that the requirement to use a year-end sales price in estimating reserves should be reconsidered. Although requiring the use of year-end prices enhances comparability between registrants, it can result in the use of prices that are inconsistent with longer-term market expectations and the basis on which management is allocating resources and making investment decisions, and thus result in reserve estimates that are not as meaningful to present and potential investors as they might be otherwise.

We note that some have advocated the use of the following pricing conventions, among others:

- Average prices for a period of time, such as the preceding year,
- Forward curve prices, or
- Management’s long-term projected average prices.

We believe that each pricing convention has its own unique strengths and weaknesses. For example, similar to year-end prices, average prices for a period of time might also be inconsistent with longer-term market and/or company expectations but would provide comparability among registrants. Conversely, the use of management’s long-term projected average prices might provide investors with additional insight into management’s projections and decision-making, but decrease comparability among registrants. These strengths and weaknesses should be evaluated to determine which convention, on balance, best serves the needs of investors.

Because any chosen pricing convention will likely result in a trade-off between quality and consistency, we believe that companies should be encouraged, but not required, to provide a sensitivity analysis that would quantify the effect of price changes on the level of disclosed reserves. We note that Regulation S-K, Item 305 requires that companies present certain qualitative and quantitative disclosures relating to market risk sensitive financial instruments (including those sensitive to commodity price risks). The sensitivity analysis disclosure alternative permitted by Item 305 might provide a helpful framework for the types of disclosures that could be made regarding the sensitivity of a company's estimated oil and gas reserves to price changes.

**Q 13. Should we consider eliminating the current restrictions on including oil and gas reserves from sources that require further processing, e.g., tar sands? If we were to eliminate the current restrictions, how should we consider a disclosure framework for those reserves? What physical form of those reserves should we consider in evaluating such a framework? Is there a way to establish a disclosure framework that accommodates unforeseen resource discoveries and processing methods?**

Although we are unable to comment on how such reserves can be best estimated and disclosed, we recommend that the current prohibition of disclosure of oil and gas reserves from sources that require further processing be eliminated. We believe that many participants in the oil and gas industry consider resources such as tar sands and shale oil, as well as more traditional sources of oil and gas reserves, when evaluating investment opportunities. Additionally, certain companies have made substantial investments in projects relating to the extraction of hydrocarbon reserves from such sources. Permitting companies to disclose the reserves estimated to be produced as a result of such investments will provide more meaningful information to current and potential investors.

**In addition to the areas for comment identified above, we are interested in any other issues that commenters may wish to address and the benefits and costs relating to investors, issuers and other market participants of the possibility of revising disclosure rules pertaining to petroleum reserves included in Commission filings. Please be as specific as possible in your discussion and analysis of any additional issues. Where possible, please provide empirical data or observations to support or illustrate your comments.**

If the current Commission disclosure rules are revised in any significant fashion, we believe that the SEC staff should also evaluate the effects, if any, of such changes on the Full Cost Method of accounting as set forth in Regulation S-X, Rule 4-10. For example, if the disclosure rules are revised such that a pricing convention other than year-end prices is used to estimate disclosed reserves, consideration should be given as to whether the requirement that current prices be used

when computing the present value of estimated future net revenues for purposes of evaluating whether the limitation on capitalized costs has been exceeded should be amended to be consistent with the pricing convention used in estimating disclosed reserves.

Additionally, we urge the SEC staff to work closely with the Financial Accounting Standards Board (“FASB”) and the Public Company Accounting Oversight Board (“PCAOB”) staff to evaluate the effect of any changes to the Commission’s rules on accounting and auditing standards promulgated by those respective organizations. We have noted certain items below that might need to be addressed; however, there could be others depending on the final nature of any changes to the Commission’s rules.

- Statement of Financial Accounting Standards No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (FAS 19), defines proved reserves using the definitions “developed by the Department of Energy for its Financial Reporting System and adopted by the Securities and Exchange Commission on December 19, 1978 in *ASR No. 257*. Reference should be made to the SEC’s reporting requirements for revisions that may have been made since the issuance of *ASR No. 257*.” Proved reserves, as estimated using the Commission’s guidelines, are used in computing depletion expense by registrants utilizing the Successful Efforts and Full Cost methods of accounting. To the extent that changes to the Commission’s guidelines result in significant revisions to the definition of proved reserves, consideration should be given as to how the associated effect of these revisions on financial statement amounts should be reported. For example, consideration should be given as to whether any related changes to a company’s unit-of-production depletion rate should be accounted for prospectively, similar to a change in estimate, or as an accounting change requiring retrospective application pursuant to Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*.
- Statement of Financial Accounting Standards No. 69, *Disclosures about Oil and Gas Producing Activities, an amendment of FASB Statements 19, 25, 33, and 39* (FAS 69) requires publicly-traded entities that have significant oil and gas producing activities to supplementally disclose, in an unaudited footnote to the financial statements, proved oil and gas reserve quantities, changes in reserve quantities, a standardized measure of discounted future net cash flows relating to reserve quantities computed using year-end prices, and changes in the standardized measure. The definition of proved reserves used in FAS 69 is based on the definition in FAS 19 as discussed above.

If the Commission amends its definition of proved reserves, the SEC staff should coordinate with the FASB staff to consider whether the FASB needs to make any changes to FAS 69. This dialog could include considering whether the disclosures required by FAS 69, or similar

such disclosures, should continue to be presented in a supplementary unaudited footnote to the financial statements pursuant to FAS 69 or, alternatively, included in Management's Discussion and Analysis or elsewhere in a registrant's SEC annual report.

- Statements on Auditing Standards No. 52 and 98 ("SAS 52/98"), which have been incorporated into PCAOB Rule 3200T, establish requirements for auditors relating to the supplemental information furnished by companies pursuant to FAS 69. Those requirements include performing procedures to determine that the information provided is "measured and presented within prescribed guidelines."

If the Commission amends its definition of proved reserves to allow companies to use their long-term average price projections or other forward-looking information, the SEC staff should coordinate with the PCAOB staff to determine the effects of such changes, if any, on an auditor's responsibilities pursuant to SAS 52/98. As with the considerations relating to the requirements of FAS 69 discussed above, this also could include considering whether the disclosures required by FAS 69, or similar such disclosures, should continue to be presented in a supplementary unaudited footnote to the financial statements pursuant to FAS 69 or, alternatively, included in Management's Discussion and Analysis or elsewhere in a registrant's SEC annual report.

Finally, the Commission should coordinate with the International Accounting Standards Board's extractive activities research project, which is considering how reserves should be defined and measured in accordance with International Financial Reporting Standards ("IFRS"). Such coordination could aid in the convergence of financial reporting by registrants that prepare their financial statements in accordance with United States Generally Accepted Accounting Principles and those reporting pursuant to IFRS.

We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

*Ernst + Young LLP*